

## Message Text

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46

ACTION ARA-10

INFO OCT-01 ISO-00 PRS-01 PA-01 EUR-12 EA-07 FEA-01

ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01 DODE-00 EB-07

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FM AMEMBASSY CARACAS

TO SECSTATE WASHDC 4297

INFO USDOC WASHDC

AMEMBASSY BOGOTA

AMEMBASSY LA PAZ

AMEMBASSY LIMA

AMEMBASSY QUITO

AMEMBASSY SANTIAGO

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E.O. 11652: N/A

TAGS: ECIN, BL, CI, CO, EC, PE, VE

SUBJECT: THE ANDEAN COMMON MARKET - VENEZUELAN POLITICAL  
ASPIRATIONS VS PRIVATE INDUSTRIAL SECTOR INTERESTS

SUMMARY: THERE HAS LONG BEEN DEEP LOCAL PUBLIC/PRIVATE SECTOR  
DISCORD REGARDING VENEZUELA'S ENTRY INTO THE ANDEAN COMMON  
MARKET, AND THE GOV'S SUBSEQUENT VIGOR IN PROMOTING THE ANPACT'S  
FORTUNES. THE DIVERGENCE OF THE ATTITUDES OF THE GOV, AND  
SPOKESMEN FOR VENEZUELA'S PRIVATE INDUSTRIAL SECTOR SEEMS AS  
WIDE AS EVER. HOWEVER, VENEZUELAN INDSTRIALISTS ARE BASICALLY  
SECURE IN THE BELIEF THAT WHEREAS THE ANPACT CAN'T BE EXPECTED  
TO CONTRIBUTE POSITIVELY TO VENEZUELA'S ECONOMIC WELL-BEING,  
STUMBLING BLOCKS IN THE COURSE OF MEANINFUL ANPACT PROGRESS  
WILL PROTECT THE INDUSTRIALISTS FROM REAL HARM.

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1. DURING THE COURSE OF THE WEEK-LONG (AUG. 2-6) VISIT OF PROFESSOR ROGER FONTAINE OF GEORGETOWN UNIVERSITY'S CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES, FONTAINE AND THE REPORTING OFFICER INTERVIEWED SEVERAL HIGHLY-PLACED PUBLIC AND PRIVATE SECTOR INDIVIDUALS WHO ARE CONCERNED WITH ANDEAN PACT DEVELOPMENTS. AT THE CONCLUSION OF A TOUR THROUGH ALL ANPACT COUNTRIES, FONTAINE PLANS TO PREPARE A PAPER ON THE SITUATION AND PROSPECTS OF THE ANCOM, TO BE PUBLISHED IN FEBRUARY 1977. THE FOLLOWING IS A SUMMARY OF THE CONTENT OF FONTAINE'S AND REPORTING OFFICER'S INTERVIEWS.

2. THE GOV TAKES THE ECONOMIC INTERGRATION ASPECTS OF THE ANPACT SERIOUSLY. THE VENEZUELAN PRIVATE SECTOR VIEWS THE ANPACT AS A POLITICAL ANIMAL DRESSED IN ECONOMIC CLOTHING. THIS VENEZUELAN SPLIT IMAGE IS NOT HARD TO EXPLAIN. THE GOV SEEKS, THROUGH MEMBERSHIP IN THE ANCOM, AN ALLIANCE WHICH WILL PLACE ALL ANPACT COUNTRIES ON MORE EQUAL FOOTING WITH THEIR HEMISPHERIC NEIGHBORS. THIS POLITICALLY-SLANTED OBJECTIVE CAN NOT BE WROUGHT WITH OTHER THAN ECONOMIC TOOLS. STILL, THE OBSTACLES TO ECONOMIC INTEGRATION ARE LARGE AND DURABLE.

3. VENEZUELA IS DIFFERENT FROM OTHER ANPACT MEMBER COUNTRIES IN SEVERAL RESPECTS. IT OFFICIALLY JOINED THE ANCOM 31 DECEMBER 1973, APPROXIMATELY FOUR YEARS AFTER THE OTHER FIVE MEMBERS. VENEZUELA'S FOREIGN TRADE IS EXTENSIVE, BUT ITS TRADE WITH ITS ANDEAN SUBREGIONAL PARTNERS IS INSIGNIFICANT (1.7 PERCENT OF VENEZUELA'S WORLD TRADE IN 1974, AND DECLINING). BECAUSE OF VENEZUELA'S LARGE EXPORTABLE OIL SURPLUSES, AND OTHER RESOURCES WHICH CONSTITUTE A FAIRLY COMPLETE MATRIX FOR INDUSTRIAL DEVELOPMENT, IT IS LIKELY THAT VENEZUELA HAS MORE POTENTIAL FOR DEVELOPING A SELF-CONTAINED AND SELF-SUFFICIENT ECONOMY THAN ANY OTHER ANDEAN COUNTRY.

4. KNOWLEDGEABLE VENEZUELAN PRIVATE SECTOR SPOKESMEN ARE MORE DISTURBED THAN PLEASED BY PROSPECTS FOR REAL ANCOM INTEGRATION. THE ANPACT SEEKS THE BENEFITS OF ECONOMIES OF SCALE RESULTING FROM SPECIALIZATION. HOWEVER, VENEZUELAN BUSINESSMEN PERCEIVE FEW CLEAR AND SIGNIFICANT COMPARATIVE ADVANTAGES WITHIN THE SUBREGION, (WITH THE EXCEPTION OF CHEAP COLOMBIAN LABOR). THE ANPACT SEEKS TO PROTECT ITS MEMBERS FROM THE "ABUSIVE" POWER LIMITED OFFICIAL USE

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OF FOREIGN INVESTORS; VENEZUELA'S INTERNALLY-GENERATED INVESTMENT CAPITAL MAKES IT ESSENTIALLY SELF-SUFFICIENT. THE ANPACT PROPOSES TO EXPAND MARKETS; BUSINESSMEN QUESTION HOW OBSTACLES ARE TO BE OVERCOME THAT HERETOFORE HAVE MADE SUBREGIONAL TRADE IMPRACTICAL. I.E., COMMUNICATIONS AND TRANSPORTATION SYSTEMS BETWEEN VENEZUELA AND THE U.S., WESTERN EUROPE, AND JAPAN ARE MUCH MORE EFFICIENT THAN THOSE LINKING VENEZUELA WITH THE ANCOM IN GENERAL. LIKEWISE, PRIMITIVE ANCOM LOGISTICS SYSTEMS MAKE

TRANSPORTATION OF NON-ANCOM INDUSTRIAL COMMODITIES CHEAPER AND MORE RELIABLE. THE PROSPECT OF MEANINGFUL INDUSTRIAL INTERDEPENDENCE ON INDUSTRIALLY (AND POLITICALLY) UNSTABLE ANPACT COUNTRIES CONCERNS VENEZUELAN INDUSTRIALISTS, BUT THEY SEE ONLY A FAINT CHANCE OF "INTEGRATION BY FIAT" THROUGH NEAR-TERM IMPOSITION OF RESTRICTIVE COMMON EXTERNAL TARIFFS.

5. ONE VENEZUELAN INDUSTRIALIST WHO INTENDS TO DEVELOP A SUBSTANTIAL FACILITY FOR THE MANUFACTURE OF AGRICULTURAL TRACTORS AND DIESEL ENGINES BEFORE AUTOMOTIVE SECTOR ASSIGNMENTS ARE FORMALIZED STATED THAT HE LOOKS AT THE ANCOM "OUT OF THE CORNERS OF HIS EYES". THE DOMESTIC MARKET IS HIS CHIEF CONCERN. IF ANCOM ASSIGNMENTS WERE TO MAKE IT PRACTICALY FOR HIM TO EXPORT, HE WOULD THEN COMMIT THE NECESSARY ADDITIONAL INVESTMENT. THIS INDUSTRIALIST STATED THAT THE CARTAGENA AGREEMENT WAS ORIGINALLY STRUCTURED TO BENEFIT PERUVIAN AND COLOMBIAN INTERESTS. ACCORDING TO SEVERAL PRIVATE VENEZUELAN SOURCES, THE GOV'S ANCOM NEGOTIATIONS HAVE BEEN FAR MORE ORIENTED TO OVERCOMING THEIR LATE START IN GAINING A ROLE OF POLITICAL LEADERSHIP IN THE ANCOM THAN THEY HAVE IN SECURING ADVANTAGES FOR VENEZUELA'S PRIVATE ECONOMIC SECTOR. THESE INDUSTRIALISTS BELIEVE THAT ANCOM NEGOTIATIONS WILL CONTINUE TO BE STYMIED BY THE ENORMITY AND COMPLEXITY OF THE TASK. MEANINGFUL ACCOMPLISHMENTS IN ANCOM INTEGRATION ARE LIKELY TO INSPIRE A STRONG AND POTENTIALLY DISRUPTIVE REACTION BY VENEZUELA'S PRIVATE INDUSTRIAL SECTOR.

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